Contribution of Regional Rural Banks for Rural Development by extending agricultural credit in India - A study on Karnataka Vikas Grameena Bank in Vijayapura District

A

Synopsis

Submitted for Registration of

Degree of Doctor of Philosophy

In Department of Commerce and Management

Karnataka State Akkamahadevi Women University,Vijayapura

September, 2019

Under the Supervision of

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Research Guide

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INTRODUCTION

India is one among the fast growing economies in the world. Economic development is the process in which people of the nation become wealthier, healthier, better educated and have greater access to good quality housing. Economic development is possible when there is increased gross domestic product in the country as result of increased economic activities in all the three sectors of the economy. Agricultural and industrial productivity improvement along with service sector. India being country of agriculture and villages has to focus on agricultural development. Rural population according to world bank collection of development indicators in 2017 is 66.46 percent in India. Rural people are to be provided with more opportunities to lead life wealthier, healthier, better education and with better infrastructural facilities and that leads to economic development of rural areas in India which can also be called as rural development. To provide these opportunities finance is very much necessary and hence there exists need of financial institutions. Financial institution are the institutions which provide loan for productive purposes and accept deposits from people who have savings and also provide other financial services. Financial institutions include banks, trust companies, insurance companies, brokerage firms and investment dealers.

Banks are important financial institutions which primarily accept deposits and lend loans and also provide other service like acts as treasurer, merchant banker, custodian of securities, provide safe locker facilities, discounts the bills and so on. Banks acts as financial intermediaries between the savers and investors. They provide linkage between the one who have excess funds and who are in need of such funds for productive purposes. Banks are centrally governed and regulated by central banks or the apex institutions in every country. In India the central bank is Reserve

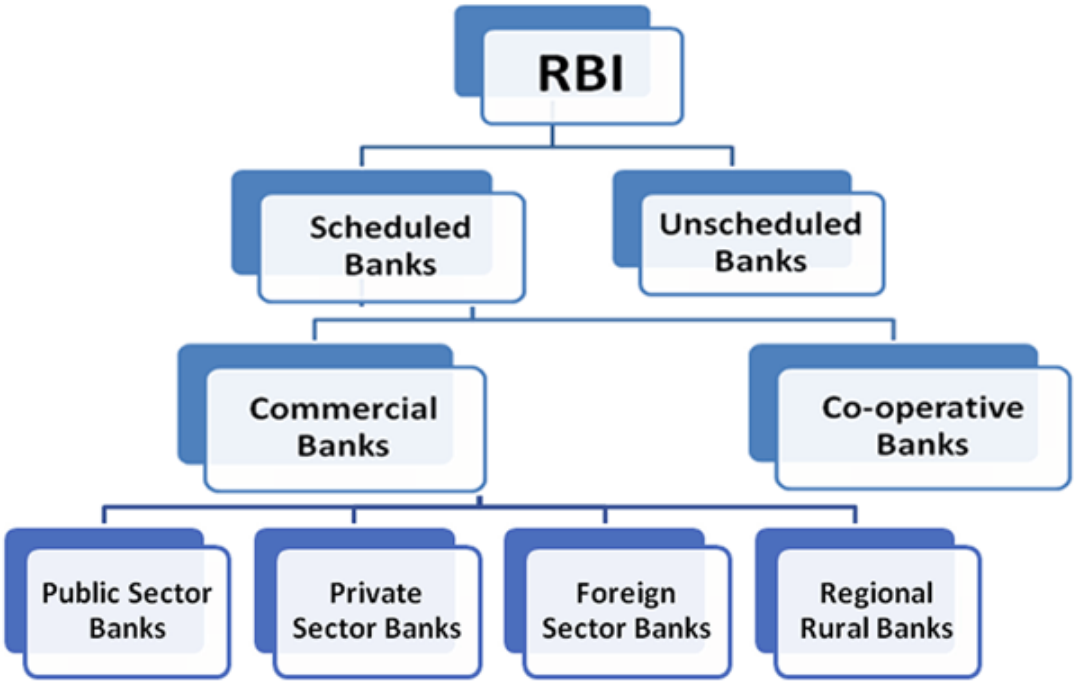
Bank of India. It was established under the Reserve Bank of India Act 1934. The following is the banking structure in India.

Structure of Indian Banking system:

The Indian banking structure comprises a heterogeneous mass covering a wide spectrum ranging from the unorganized indigenous bankers at the one end to the foreign banks at the other. The present structure comprises of the organized institutions which are formulated under the provisions of the Act. Reserve Bank of India Being apex body of the country regulates and controls the Banking system in India. Reserve bank of India classified the set of the various banks in to mainly two types as scheduled and unscheduled banks.

The structure can be analyzed more clearly from the following flow chart:

Flow chart I: Structure of Indian Banking Systems



Source: From scoopskiller website

Flow chart I indicates the structure of Indian Banking system in India. A scheduled bank is a bank that is listed under the second schedule of the RBI Act 1934. These banks mainly classified into two groups such as Commercial banks and Cooperative banks. Commercial banks sub classified in to Public sector banks (include nationalized banks, SBI & Associate banks), Private sector banks, Foreign banks and

Regional Rural Banks. Cooperative banks sub classified into Urban &Rural Cooperative Banks. An unscheduled bank is a bank that is not listed under the Second Schedule of the RBI Act 1934.

One of the major components of Indian banking system is commercial banks. Commercial banks play crucial role in development of Indian economy. They mobilize savings from people by offering attractive interest rates and other offers on the one hand: and lend loans to the investors to undertake economic activities like investing in business operations, purchasing land and building, installation of machineries, purchasing agricultural equipments etc. on the other hand. As said by A famous economist Joseph Schumpeter, 'Bank credit is the engine of Economic Development'. By increasing economic activities money flow will increase, employment generation takes place, income level of people will increase and there by standard of living of people will increase and economic development takes place

Regional rural banks are also a type of scheduled commercial banks. These have established for developing the rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to the small and marginal farmers, agricultural laborers, artisans and small entrepreneurs. To create financial literacy among rural poor and to develop saving habits among rural people. They are also called as rural banks. Following are the objectives of regional rural banks.

Objectives of regional rural banks:

1. To provide financial assistance to small and marginal farmers, agricultural laboures and small entrepreneurs at cheaper rates and in liberalized form.
2. To accelerate economic growth of a particular region by acting as catalyst.
3. To cultivate banking habits among rural poor and mobilizing the savings from them for economic development of rural areas.
4. To save people in rural area from exploitation of money lenders.
5. To promote new and existing entrepreneurs in rural areas.
6. To generate employment opportunities by encouraging trade and commerce in rural area.

Hence above points indicate the objectives of these rural banks and they focus mainly on rural development.

Rural development is a global phenomenon. It is wide spread all over the world, can be seen in almost all developing and under development countries. Rural development is the process of improving the quality of life and economic wellbeing of people living in rural areas. Today inclusive rural development is of more concern, which means improving the quality of life of rural people in three dimensions namely economic, social and political dimensions. Following are the features or facets of rural development in India.

Facets of rural development:

1. Increasing the level of standard of living of rural people by providing food, shelter, clothing, employment, education and medical facilities.
2. Decentralization of Administration by involving rural people in planning and development.
3. To reduce poverty concentration is laid down on increasing the productivity.
4. Ensuring the equalization of opportunities in rural society.
5. To provide infrastructural facilities like water, electricity, good drainage system and cement roads to all villages.

India is a country of villages and the major occupation in villages is agriculture. The regional rural banks concentrate more on primary sector that is agriculture sector for achieving rural development in India.

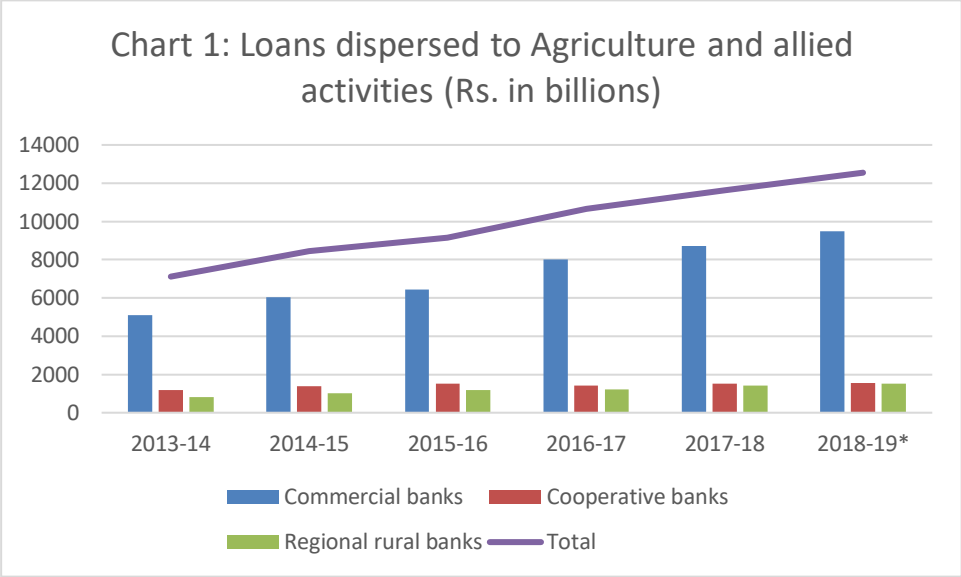
Table 1: Loan dispersed to Agricuture and Allied activities (Rs. In Billions)

Years	Commercial banks	Cooperative banks	Regional rural banks	Total
2013-14	5090	1199	827	7116
2014-15	6044	1385	1025	8454
2015-16	6430	1533	1193	9156
2016-17	7998	1428	1232	10658
2017-18	8711	1503	1412	11626
2018-19*	9496	1539	1513	12548

*Provisional

Source: RBI Annual reports from 2015 to 2019

The table 1 shows Loans dispersed to Agriculture and allied activities by commercial banks, cooperative banks and regional rural banks from the financial year 2013-14 to 2018-19.



Source : Table 1

From above chart 1, It can be easily understood that loans dispersed to agriculture and allied activities showing an increasing trend in India. Hence it a matter of concern that rural development is possible through agricultural development which is possible by providing financial assistance to this sector. It is evident from the above chart that financial assistance to agriculture and allied activities has been increasing by these financial institutions in India.

Hence it can be clearly understood that the there is much importance is given for agriculture and allied activities and is necessary also. The present study is useful to measure the contribution of Regional rural banks in rural development by extending agricultural credit in India.

REVIEW OF LITERATURE

A detailed survey of literature has been conducted and they have been summarized as follows:

A report of the agriculture credit review committee of RBI, "**A review of the Agricultural credit system in India**" (1990) analyzed the working of regional rural banks in great detail. It has gone through the performance and progress of Regional rural banks and also stated the future of Regional rural banks in the rural credit system. The committee recommended merger of these banks with commercial banks and it will in due course take closer to achieve the goal of creating a strong, viable credit system, in which the interests of the small man would be better served.

Pushpa Rani Neelam in her work entitled "**Impact of Regional rural banks in improving the economic conditions of weaker sections – A case study of ManjiraGrameenabank**"(1991), states that impact of Manjiragramin bank of Andra Pradesh was significant on beneficiary groups and increased their farm income to a greater extent. The impact of the bank was more significant on petty traders.

Ankamreddi Ram Mohan(2010) in his work entitled "**Role of Regional rural banks in rural development: with special reference to AndraPadesh Grameen Vikas Bank of Shrikakulam District of Andra Pradesh**" examines the role of APGVB in the promotion of Agriculture, Entrepreneurship and self-employment and problems encountered by APGVB and beneficiaries of rural credit. The study proved by survey of account holders that the agricultural credit has manifold advantages with minor deficiencies. The study shows that credit has unique place in economic development of country and it provides energy to lubricate the idle assets particularly weaker sections of rural population.

R N subudhi& Jitendra Ram (2012) in their study entitled "**Operational efficiency of Regional rural banks and other commercial banks of odisha India: A comparative study**" analyzed that both the public sector and private sector commercial banks functioning odisha have been ignoring their responsibility for development of the rural people and rural economy of the state. At the same time the contribution of Regional rural banks in the inclusive growth of rural economy are

praise worthy. The study has suggested for further empirical research, taking longer time period and more parameters, so as to establish a more conclusive result on finding the contribution of banks in socio-economic development of a region.

Bharath M Kher (2013) in his paper measured "**Role of Rural banks in the development of rural socio-economy**". The study was diagnostic & exploratory in nature and based on secondary data. It states agricultural loans disbursement is more as compared to non-agricultural loan disbursement. There is much gap between short-term loans for crop and the term-loans for agricultural and allied activities.

C Viswanatha Reddy (2013) in his paper "**Rural banking- A way for Balanced Regional Development**"conducted exploratory research from secondary data. The statistical tools applied for data analysis are percentage, average, pie- diagrams, ANOVA etc. The study suggested to Government to encourage and support banks to take appropriate steps in branch expansion and for coordinated and for banks to overcome the practical difficulties in deposit mobilization.

Narayan Chandra Pradhan (2013), RBI Working paper "**Persistence of informal credit in rural India: Evidence from All-India debt and Investment survey and beyond**" the study conducted on based on the secondary data include reports of RBI and GOI. It is assessed that the share of rural informal credit is decreasing over the period from 1950 to 2002 with various financial inclusion initiatives of the Reserve Bank and legislations of the various state governments to regulate moneylenders. However, there is still scope for financial inclusion in rural areas as two-fifth of rural households dependent on informal credit.

Seema Rafique & Satish Manwani (2013) in their paper entitled "**Role of Regional rural banks in the Economic development of India**" states 69 percent of Population of India lives in rural area. This population contributes significantly both as consumer and labour. Development of the country aims at developing all sectors and it aims at inclusive growth. Rural India is full of potential there is a need for development of this area and proper banking support from RRBs can help much. If the basic hurdles are overcome then definitely we can have a balanced growth of rural and urban India.

M Prabakaran(2014), in his paper mentioned the "**Role of regional rural banks and NABARD in Rural development**". The study states the role of RRBs and NABARD in developing rural area in India and to analyze measures for improving overall performance of RRBs like Introduction of Kisan credit cards for the achievement and overall performance of RRBs and NABARD. The later has introduced several policy provision on credit farmers, off-site surveillance,merger of RRBs coming under a sponsor bank and operating in contiguous area.

Sabita Devi (2014) examined "**Problems and prospects of regional rural banks in India**". The study stated about establishment structure and organization of RRBs; objectives and role of RRBs in present scenario. The study also listed few problems of RRBs and suggested few improvements in working of RRBs. Regional rural banks should not only confine their operations only in agriculture sector but also provides benefits to small entrepreneurs, villages and cottage industries and small farmers. They should establish proper co-ordination with other institutional financing agencies, co-operative banks, commercial banks and local participants to enhance their capability and exploit untapped rural market.

Santosh kumar Shukla (2014) conducted research on "**Regional rural banks in India: A brief historical description with thrown on few cases of real life positive changes and some problems of regional rural banks**". The paper has used both primary & secondary sources for information. Rural India has 19.1percent bank access to help 72 percent of the population, who account for 29percent of 500 million in India. RRBs are not only aiding the rural ladies to come out of their role of being a housewife but also getting involved in other activities which are helping to add to the GDP of the country and spreading the lovely art and creativity of the country from the villages to urban and overseas.

N Santhi& T R Ganesan(2015) analyzed "**The role of Regional rural banks for rural development in India**" The study focused on the functions of RRBs and other financial institutions contribute for rural development in India. The banks need to encourage the agricultural sector by providing larger amount of term loans. Generally, non-agricultural sector indirectly helps the rural economy in many ways. Keeping in view, the RRBs may enhance the percentage of loan to this sector. This finding may be considerable use to rural banking institutions and policy makers in developing and

shaping the appropriate credit structure as RRBs are integral part of the credit structure in India.

Venkatalakshmi (2015), "**Current position of Regional rural banks in India- A review**" states that Regional rural banks were immensely rendering the banking services to rural poor particularly farmers, agricultural artisans, and rural entrepreneurs in providing needful financial assistance over the study period. The capital structure itself proved in developing the strength of RRBs in India as well as developing the branches and representation of rural financial assistance through Self Help Group linkage. It is found that the capital structure of Regional rural banks shown the share of owned funds declined in fluctuation manner from 47.65% to 9.50% over the study period, but borrowed funds aggressively increased from 52.35% to 90.50%.

Charansingh& others (2016) in RBI Working paper entitled "**Economic Growth and Banking credit in India**" aims to examine the relationship between credit and growth in India in last few decades. The empirical finding suggests that there exists a long term co-integration relationship between credit and GDP in Manufacturing sector. The co-integration relationship is also exhibited in the overall GDP and credit data during the initial period of Indian economic growth. This longterm relationship breaks down post 1992. However, a short term causal relationship with GDP leading credit exists for the sectoral as well as overall data.

Mukesh tagariya& Pritesh Panchal(2016) in their work entitled "**A conceptual study on the role of RRBs in India**" analyzed the role in institutional financing in terms of geographical coverage, clientele outreach, business volume as also contributions to the development of the rural economy. The expansion of RRBs has helped in reducing substantially the regional disparities in respect of banking facilities in India.

Prasanna Kumar Das(2016) measured "**Financial performance evaluation of Regional rural banks in India**". The study is based on secondary data collected and compiled from annual reports of RBI and NABARD for post merger period i.e 2005-06 to 2012-13. Out of total 651 districts in India, 635 districts are covered by RRBs. It has suggested GOI to complete the process of recapitalization and region

orientedpolicies should be framed foe writing off accumulated losses of specific RRB. Although profits are continuously increasing still index numbers and percentages calculated for net profit presents a fluctuating trend and need to get stabilized with some policy changes and initiatives taken by officers of RRBs and initiatives taken by officers of RRBs and implemented with the help of Government for improving the functioning of RRBs.

Taralpatel&Nisarg shah (2016) conducted "**A study on performance evaluation of RRBs of India**" The study is based on the secondary sources of information i.e from annual reports of RBI from 2001 to 2013. It analyzed financial performance of RRBs at post and pre amalgamation measuring based on the spread ratio, burden ratio & profitability ratio. Spread ratio comprises of interest income expended divided by total assets. It has shown significant growth. Other two ratios have not shown any significant difference because too much emphasis on priority sector which badly affect on lending in non-priority sector as interest rates are higher in non-priority sector to that of priority sector.

Gagan deep (2017) in his work "**Impact of Regional rural banks in the economic development of rural area: A study of Himachal Pradesh**" examined the impact of bank credit in development of agriculture and allied services and industries in rural areas of the state. The study is based on both primary and secondary data. The study states that Himachal Padeshgramin bank to rural people has made a favorable impact on different sources of their income and to some extent resulted in employment generation.

Seena P C & R Nirmal Devi (2018) conductedresearch on "**A study on Satisfaction level of Agricultural loan Beneficiaries of Regional rural banks: with special reference to Kerala Gramin Bank in Waynad District**". The database for the study was from both primary and secondary sources. The study finds that RRBs share of Agricultural credit showing an increasing trend; there is significant variations in the level of satisfaction of agricultural loan beneficiaries of Kerala Gramin Bank across three taluks; majority of beneficiaries have opined that the bank posses moderate level in all attributes of services of KGB.

RESEARCH GAP

It is clear from the review of literature that many studies have been conducted on Regional rural banks and rural development. Some studies measured performance of regional rural banks, effects of amalgamation and impact on economic development of rural areas, while other studies examined the operational efficiency of regional rural banks, bank credit and economic growth, role of rural banking in socio-economic development, problems and prospects of regional rural banking, role of RRBs in economic development of India.

The main objective for establishment of regional rural banks in India is to develop banking habits among rural people and to achieve economic development of rural areas in India. As per review, only few studies have examined the impact of regional rural banks in rural development in India and no study has been conducted on contribution of RRBs for rural development by extending agricultural credit in India. No study has been conducted in the study area that is in vijayapura district of Karnataka for measuring the contribution of RRBs for Rural Development. Hence there is need of present study to analyze the contribution of regional rural banks for rural development in India as whole and in Karantaka in particular.

NEED AND SCOPE OF THE STUDY

'The soul of India lives in its villages' as said by Mahatma Gandhi. As mentioned above, 66.46 percent of total population lives in rural areas in 2017. The main occupation of rural India is agriculture. Regional rural banks are rural banks which accepts deposits and lend loans for economic development of rural areas. These banks mainly lend to rural artisans, small and marginal farmers, landless labourers, small entrepreneurs in rural areas. It is essential to know the positive and negative impact of these banks on the rural society and on the economy. How helpful these banks are for rural economic development by providing loans to agriculture and allied activities and for small farmers and rural artisans? The present study is needful to examine the contribution of regional rural banks for rural development by extending agricultural credit in India in general; The study will be conducted on Karnataka Vikas Grameena Bank in Vijayapur district and hence in Karnataka in particular.

OBJECTIVES OF THE STUDY

- To analyze the performance and growth of Regional rural banks in India.
- To examine impact on income level of beneficiaries.
- To know impact on employment generation in rural areas.
- To list the loan facilities provided to agricultural and allied activities by these banks.
- To check cultivation of banking habits among rural people.
- To measure the contribution for rural development through credit to Agriculture and allied activities.
- To provide suitable suggestions on the basis of findings of the study.

RESEARCH METHODOLOGY

Type of data:

The study will be based on both Primary and secondary source of information.
Primary data will be collected through issuing structured questionnaire to agricultural credit beneficiaries of the banks in the study area i.e. vijayapura district.
Secondary data from banks annual reports, RBI's reports, journals, Books, Magazines, Government books, news papers and various websites.

Statistical Tools:

The collected data will be classified and analyzed with various statistical tools like average, percentage, graphs, tables, correlation, regression, chi-square, Z-test, ANOVA or any other suitable tests of significance to test hypotheses by using statistical softwires like SPSS and Excel.

Sample Design:

The sample size is determined as per literature survey, previous similar studies considered the proposed sample size is acceptable to have accurate results from the

research. The sample size would be 480 i.e. 40 respondents form each taluka of vijayapura district. And the type of sample design is stratified random sample.

Hypotheses to be tested in the study:

- There is significant increase in the performance of Regional rural bank in India.
- There has been positive impact on the income of level of beneficiaries.
- There has been increase in employment generation on account of its financial assistance.
- Banking habits among rural poor has been developed.
- There has been significant contribution for rural development through by extending agricultural credit in rural areas.

PROPOSED CHAPTERIZATION

The structure of proposed study will be as follows:

Chapter 1: Introduction

This chapter aims to cover the concept of Rural development, occupation structure, agriculture and rural development, problems of rural development and Banking system in India.

Chapter 2: An Overview of Regional rural banks in India

The chapter shall cover emergence, establishment, objectives, Amalgamation, Performance and problems of Regional rural banks.

Chapter 3: Review of Literature and Research Methodology:

The chapter shall comprise the past researches done in the area. Review of literature on regional rural banks and rural development. Includes research gaps and need of the study, research objectives and hypotheses, data collection tools, sampling design, statistical tools and limitations of the study.

Chapter 4: Description of study area:

This chapter include Vijayapur District Map, Background, geographical features, socio-economic features, District Administration and Demographics.

Chapter 5: Analysis and Interpretation:

The chapter classifies data collected and analysis will be made to test the set hypotheses and interpretation of each parameter will be carried on to get findings of the study.

Chapter 6: Suggestions and Conclusion:

The last chapter include the results of the study, suitable suggestions and Conclusion.

LIMITATIONS OF THE STUDY

1.The study is primarily based on vijaypura district beneficieries only.
2.The conclusions are drawn based on the opinions received from beneficiaries, may not hold good to whole population.

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